

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01  
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 OES-06  
SP-02 SS-15 STR-04 TRSE-00 ACDA-07 USIE-00 INRE-00  
NSCE-00 PA-01 PRS-01 /094 W  
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C O N F I D E N T I A L QUITO 9014

E.O. 11652: GDS  
TAGS: EINV, ENRG, PFOR, EC  
SUBJECT: GULF-GOE NEGOTIATIONS

REF: QUITO 8992

1. SUMMARY: VARGAS HAS AGREED TO A PROPOSAL BY SEVILLA THAT  
ALLOWS THE GOE TO TAKE OVER GULF'S ASSETS ON DECEMBER 31 AND  
GUARANTEES GULF PAYMENT AT THE FINAL AUDIT FIGURE. ALTHOUGH  
LUMPKIN HAS SOME RESERVATIONS ABOUT THE PROPOSAL, IT NOW  
LOOKS AS IF THE IMPASSE MAY HAVE BEEN BROKEN. END SUMMARY.

2. I CALLED ON MINISTER OF FINANCES SANTIAGO SEVILLA  
AFTERNOON OF DECEMBER 29 TO DISCUSS THE IMPASSE IN THE GULF  
NEGOTIATIONS. SEVILLA ADMITTED THAT THE GOE WOULD BE FORCED  
TO TAKE CONTROL OF GULF'S ASSETS ON DECEMBER 31 FOR POLITICAL  
REASONS BUT EMPHASIZED THAT THE SUPREME COUNCIL WAS EAGER TO  
FIND A WAY TO SATISFY GULF AT THE SAME TIME. TO THIS END,  
SEVILLA SAID, HE HAD FORMULATED A PROPOSAL ALLOWING THE GOE  
TO TAKE OVER GULF'S ASSETS DECEMBER 31 WHILE GUARANTEEING  
GULF PAYMENT AT THE FINAL AUDIT FIGURE. HE SAID HE WOULD  
TRY TO GET THE SUPREME COUNCIL BEHIND THIS PROPOSAL BEFORE  
GULF'S MEETING WITH VARGAS TONIGHT.  
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3. SEVILLA PROPOSED THAT THE GOE IMMEDIATELY ISSUE A CONFIRMED  
LETTER OF CREDIT FOR \$82 MILLION, PAYABLE AT THE TIME OF  
GULF'S FINAL DEPOSIT, I.E., IN 120 DAYS. THE GOE WOULD ALSO  
GUARANTEE BY CONFIRMED LETTER OF CREDIT PAYMENT OF DIFFERENCE  
BETWEEN \$82 MILLION AND THE FINAL AUDIT FIGURE. SEVILLA SAID

HE HAD SOME "AVAILABLE" FUNDS IN THE TREASURY AND WOULD HAVE NO DIFFICULTY IN BORROWING THE REMAINDER.

4. WHEN I MENTIONED THAT GULF BELIEVED A QUITCLAIM WOULD BE NECESSARY FOR PROTECTION AGAINST EXCESSIVE GOE CLAIMS, SEVILLA SAID HE WOULD TRY TO INCLUDE A QUITCLAIM IN THE AGREEMENT. HE SAID, HOWEVER, THAT A QUITCLAIM WOULD BE UNNECESSARY IF THE GOE HAD GUARANTEED PAYMENT BY CONFIRMED LETTERS OF CREDIT AT THE FINAL AUDIT FIGURE.

5. I ALSO GAVE SEVILLA A COPY OF GULF'S DRAFT DECREE WHICH SEVILLA AGREED WAS TO BE USED ONLY AS A FALL-BACK POSITION. IN LIGHT OF ABOVE CONVERSATION, I CANCELLED APPOINTMENT WITH POVEDA FOR PURPOSE OF PROVIDING HIM WITH DRAFT DECREE (REFTEL).

6. SEVILLA CALLED LATER TO INFORM ME THAT VARGAS HAD AGREED TO SEVILLA'S PLAN, WITH ONE CONDITION: GULF MUST AGREE TO REIMBURSE THE GOE SHOULD THE FINAL AUDIT FIGURE BE LESS THAN \$82 MILLION. VARGAS ALSO TOLD SEVILLA HE WOULD CONSIDER INCLUDING A QUITCLAIM IN THE AGREEMENT.

7. I IMMEDIATELY CALLED LUMPKIN TO INFORM HIM OF THE GOOD NEWS. (LUMPKIN HAD EARLIER BEEN INFORMED OF SEVILLA'S PROPOSAL AND INDICATED IT WAS ACCEPTABLE TO GULF.) LUMPKIN SAID, HOWEVER, HE WAS NOW HAVING SECOND THOUGHTS ABOUT ACCEPTING THE \$82 MILLION FIGURE AT ALL SINCE GULF'S ACCEPTANCE WOULD SOMEHOW VALIDATE THIS FIGURE. HE ALSO SAID THAT A QUITCLAIM WOULD BE NECESSARY, SINCE THE ECUADOREAN GOVERNMENT MIGHT BE ABLE TO ATTACH GULF'S ASSETS IN SOME OTHER COUNTRY ON THE BASIS

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OF A JUDGEMENT IN THE ECUADOREAN COURTS, AND, AFTER ALL, GULF MIGHT WISH TO RETURN TO ECUADOR SOME DAY. I TOLD LUMPKIN I THOUGHT HE WAS BEING UNREASONABLE: THE \$82.1 MILLION WAS A DOWN-PAYMENT; IF THE GOE WAS WILLING TO GIVE AN IRREVOCABLE GUARANTEE OF ANY HIGHER FIGURE ESTABLISHED BY THE AUDIT, GULF SHOULD BE WILLING TO DO THE SAME FOR A LOWER FIGURE. I URGED HIM TO BE REASONABLE.

8. GULF AND THE GOE NEGOTIATORS ARE NOW MEETING; GULF WILL MEET WITH ME WHEN THE SESSION ENDS.

9. COMMENT: IF THE NEGOTIATIONS STALL ON THE BASIS OF GULF'S REFUSAL TO ACCEPT THE \$82.1 MILLION DOWN-PAYMENT, I INTEND TO PRESS LUMPKIN HARD. I CANNOT SEE HOW THE USG COULD EVER MAINTAIN THAT THE GOE'S OFFER WAS NOT TANTAMOUNT TO PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION.

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